

**CAMBRIDGE REGIONAL TREATMENT CENTER
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990**

MAY 1991

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

CAMBRIDGE REGIONAL TREATMENT CENTER

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: May 2, 1991

No. 91-28

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Personnel services; cost of residents' care; community based group homes; social welfare accounts; contractual services, and other operating disbursements.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The center has not completed group home service contracts timely.

We found that the center had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Natalie Steffen, Commissioner
Department of Human Services

Jerry Lovrien, Chief Executive Officer
Cambridge Regional Treatment Center

Audit Scope

We have conducted a financial related audit of the Cambridge Regional Treatment Center as of and for the three years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial statements attributable to the transactions of the Cambridge Regional Treatment Center, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Cambridge Regional Treatment Center in effect during January of 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of Cambridge Regional Treatment Center are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Cambridge Regional Treatment Center's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of Cambridge Regional Treatment Center is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Ms. Natalie Steffen, Commissioner
Mr. Jerry Lovrien, Chief Executive Officer
Page 2

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Personnel services;
- Cost of residents' care;
- Community based group homes;
- Social welfare accounts;
- Contracts; and
- Other operating expenditures.

For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and we assessed control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of Cambridge Regional Treatment Center. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe that the reportable condition described above is a material weakness.

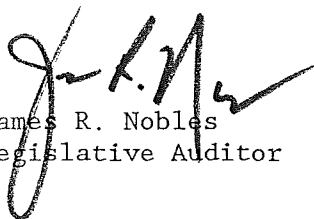
Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Ms. Natalie Steffen, Commissioner
Mr. Jerry Lovrien, Chief Executive Officer
Page 3

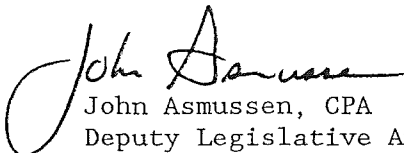
We also noted other matters involving the internal control structure and its operation that we reported to management of the Cambridge Regional Treatment Center at the exit conference held on February 26, 1991.

The results of our tests indicate that, with respect to items tested, Cambridge Regional Treatment Center complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Cambridge Regional Treatment Center had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of Cambridge Regional Treatment Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 2, 1991.

We would like to thank the Cambridge Regional Treatment Center staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 26, 1991

REPORT SIGNED ON: April 25, 1991

CAMBRIDGE REGIONAL TREATMENT CENTER

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	4

AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Ellen Merlin, CPA	Auditor-in-Charge
Sonya Hill	Senior Auditor
Dan Quandt	Senior Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff on February 26, 1991:

Jerry Lovrien	Chief Executive Officer
Michael Maus	Chief Operating Officer
Don Peters	Assistant Administrator
Kathy Johnson	Assistant to the Chief Executive
David Paulson	Medical Director
Cheryl Mindt	Personnel Director
Jim David	Clinic Administrator
Dennis Boland	Quality Assurance Administrator
Norbert Johnson	Physical Plant Director
Char Reinhart	Acting Administrative Secretary

CAMBRIDGE REGIONAL TREATMENT CENTER

I. INTRODUCTION

Cambridge Regional Treatment Center provides services for developmentally disabled and mentally retarded citizens of east central Minnesota. These services are residential, therapeutic, and habilitating in nature. Cambridge operates on campus programs that benefit both profoundly and mildly to moderately retarded individuals. The facility is under the current supervision of Jerry Lovrien, Chief Executive Officer. The average daily population for fiscal years 1988-1990 is as follows:

<u>Fiscal</u> <u>Year</u>	<u>Average Daily Population</u>
1988	335
1989	300
1990	261

The center is financed mainly by General Fund appropriations made directly to the Department of Human Services. Human Services is responsible for controlling, maintaining, and transferring the necessary funds to the center accounts.

The table below summarizes the Cambridge Regional Treatment Center General Fund expenditures for fiscal years 1988-1990:

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Personnel services	\$21,017,542	\$20,762,579	\$21,902,030
Contracts	133,589	65,249	57,196
Other operating expenditures	<u>2,244,240</u>	<u>2,218,568</u>	<u>2,376,282</u>
Total Expenditures	<u>\$23,395,371</u>	<u>\$23,046,396</u>	<u>\$24,335,508</u>

Source: Statewide Accounting System, *Closing Manager's Financial Reports* for fiscal years 1988, 1989, and 1990.

Receipts for the cost of care related to the center's residents are collected directly by the Department of Human Services Reimbursement Division. The department collected \$23,955,313, \$20,028,042, and \$22,298,191 for the years ended June 30, 1988, 1989, and 1990, respectively, as reported by the Reimbursement Division. The center also operates three community based group homes under agreement with various counties. The center receives the majority of funding for services rendered to group home residents directly from the counties. The Statewide Accounting System appropriation balances within fund report as of December 31, 1991 showed group home receipts for the three fiscal years ended June 30, 1990 of approximately \$2 million.

CAMBRIDGE REGIONAL TREATMENT CENTER

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The center has not completed group home service contracts timely.

Cambridge Regional Treatment Center has not promptly completed contracts nor collected the associated receipts for services provided in community based group homes. During fiscal years 1988 through 1990, nine contracts between various counties and the center were not completed in a timely manner. Further, as of February 1991, contracts for fiscal year 1991 still await final approval. Under these contracts, the center provides services to the counties for the treatment of developmentally disabled residents of three community based group homes.

Five out of the nine contracts were not completed until eleven months after services had begun. In the remaining four contracts, services began about six months before completion of the contracts. Several concerns arise from the lack of properly completed contracts:

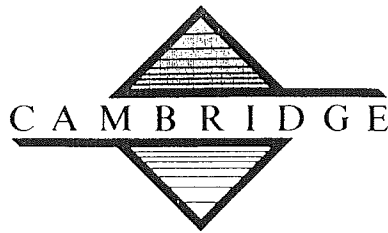
- Most counties withhold payments to the state pending approval of final contracts. As a result of these delays in payment, the center's cash flow is adversely affected. These funds are to be used for the expenses of operating the group homes. While all prior fiscal year receipts have been collected, the center's reimbursement officer estimates an outstanding balance for fiscal year 1991 of \$269,000 as of January 30, 1991.
- Without properly approved and documented contract rates, accounts receivable and billing duties are complicated. The center does not incorporate rate increases in the billing system until final approval of the contract. Once the contract is complete, the center must go back and bill for the rate increases. Back billing increases misunderstandings of the amounts billed to the counties. It also complicates the reconciliation of the billings to the receipts collected from the counties.
- Operation without properly completed contracts exposes the center to increased risk of loss from rate disagreements. Misunderstandings about the provision of services could also arise. Completed contracts should clearly establish legal responsibilities, and obligations of all parties involved.

The Department of Human Services central office staff, the center and the respective counties are required to sign the contracts before final execution. All parties are contributing to the delays in finalizing the contracts timely. However, we are not convinced that the delays are legitimate. Further, we believe the center must take the initiative to assure that the contracts are completed promptly.

CAMBRIDGE REGIONAL TREATMENT CENTER

RECOMMENDATIONS

- The center should establish contracts with the counties before providing group home services.
- The group home service contracts should clearly define responsibilities and obligations of the various parties.
- The center should also finalize fiscal year 1991 contracts and collect the outstanding billings.



REGIONAL
HUMAN SERVICES CENTER

1235 Highway 293
Cambridge, Minnesota 55008
(612)689-2121

Jerry Lovrien, M.H.A.
Chief Executive Officer

David Paulson, M.D.
Medical Director

April 18, 1991

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for your April 5, 1991, draft of the audit report for the Cambridge Regional Human Services Center for the three years ending June 30, 1988, 1989 and 1990. We enjoyed working with your audit team and feel they were very helpful in providing guidance throughout the audit period.

At our February 26, 1991, Executive Committee meeting, the exit audit interview disclosed a concern regarding the process of certifying group home contracts. This is the issue you identify in item II of your report "Current Findings and Recommendations".

It was disclosed and understood by the auditors at the exit interview, that contracts for the group homes are prepared in advance of the effective date of the contracts by the Cambridge Regional Center and mailed to the county of financial responsibility for signature by the county attorney and the county human services director. The contract is then mailed by the county to the Department of Human Services and the following additional signatures must be secured prior to full contract ratification: Commissioner of Administration, Commissioner of Human Services, Commissioner of Finance and the State Attorney General.

At the exit we discussed methods to rectify your auditors' concerns and it was agreed that resolution could be the Center send follow-up letters each month requesting signatures. We welcome any suggestions you might have to our plan.

CRC Initiative Toward Resolution of Contract Issues:

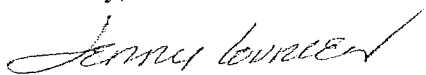
1. All group home contracts for the upcoming year shall be mailed to the county of financial responsibility two months prior to the beginning of the contract year.
Person Responsible: James David
2. Within 30 days of the date contracts were sent to the county, if a signed copy of the contract is not forwarded by the county to the Department of Human Services, James David will mail follow-up request to the county, and each 30 days thereafter.

James Nobles, Legislative Auditor
Page 2
April 18, 1991

3. The Residential Program Management Division of the Department of Human Services will monitor the signatory process so that all signatures are affixed within 30 days of receipt of the contracts.
Person Responsible: Tom Eberhart
4. The Residential Program Management Division of the Department of Human Services will ensure finalization of 1991 contracts by May 31, 1991.
Person Responsible: Karen Peed
5. Collection of outstanding billings will be initiated by May 31, 1991.
Person Responsible: Duane Cooney, DHS Reimbursement Division.

If you have any questions or comments regarding this response, please feel free to contact me or Jim Walker, Financial Manager for the Residential Program Management Division at the Department of Human Services (296-6919).

Sincerely,



Jerry Lovrien
Chief Executive Officer

JL/jb

cc: B. Baird
D. Maxa
D. Peters
D. Cooney
M. Maus